

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF THE KENTUCKY)	
INTRASTATE RATES OF SOUTH CENTRAL)	CASE NO. 10105
BELL TELEPHONE COMPANY, INC.)	

O R D E R

Introduction

On December 16, 1987, the Commission initiated this case to investigate South Central Bell Telephone Company, Inc.'s ("SCB") earnings. On September 30, 1988, the Commission adopted an experimental incentive regulation plan ("incentive plan"). In that Order the Commission found that additional financial monitoring of SCB would be necessary and required that an informal conference be held with its Staff and parties to the case to determine appropriate records and financial monitoring procedures. Informal conferences were held October 25, 1988 and December 1, 1988.

There have been many concerns expressed about the confidentiality of certain information SCB will be required to file during the course of this 2-year experiment. Up to this point, the parties and the Staff, on behalf of the Commission, have been conferring to discuss the format in which the information should be maintained. There have been no filings into the record except those that have been filed pursuant to the September 30, 1988 Order. Other reports which SCB files on a regular monthly basis with the Commission have continued. The Commission has made no

determination about the confidentiality of the filings ordered to be maintained in this proceeding. Indeed such a determination would be premature. SCB should file the material ordered herein under a separate case number which will be maintained for the duration of this incentive plan experiment, Case No. 89-076. SCB should note at the time of these filings whether any portions are deemed confidential and proprietary by SCB and should file a petition for confidential treatment pursuant to 807 KAR 5:001, Section 7 for such portions. The petition should include copies for the public file as well as the confidential file. At that point, parties to this proceeding will be given an opportunity to respond to the petitions for confidential treatment and the Commission will determine the confidential status of the material so filed.

This Order addresses the Commission's determination of the necessary reports to be filed by SCB as well as other general financial monitoring requirements the Commission finds necessary.

Reports

The Commission has determined that SCB should file the following reports from the date of this Order through the fourth point of test:

<u>Title</u>	<u>Description</u>	<u>Filing Frequency</u>
1) Financial Report No. 1	Income Statement	Monthly
2) Monthly Report No. 4	Operating Revenues	Monthly
3) Financial Report No. 5	Operating Expenses	Monthly
4) Budget Tracking Rpt. 10	Budget vs. Actual	Monthly
5) Monthly Report No. 23	Employee Statistics	Monthly
6) Monthly Analysis No. 16	Depreciation Reserve	Monthly
7) Report 2A Special	Telephone Plant Accounts	Monthly

In addition to the Kentucky combined data, the Commission finds that SCB should file intrastate data, consisting of the following financial exhibits, which are attached and incorporated in Appendix A to this Order:

<u>Title</u>	<u>Description</u>	<u>Filing Frequency</u>
1) KPSC Schedule 1	Income Statement	Monthly
2) KPSC Schedule 1A	Income Statement Detail	Monthly
3) KPSC Schedule 2	Capitalization and Statistics	Monthly
4) KPSC Schedule 3	Regulated Net Investment	Monthly
5) KPSC Schedule 4	Supplemental Information	Monthly
6) KPSC Schedule 5A	Expense Matrix Combined	Monthly
7) KPSC Schedule 5B	Expense Matrix Intrastate	Monthly
8) KPSC Schedule 6	Pro Forma Adjustments	Semi-Annual*

* During the informal conference, it was agreed that KPSC Schedule 6 would be provided every 6 months coincidentally with the filings of each point of test.

The Kentucky combined financial data should be submitted not later than 3 weeks following the close of the month being reported. The Kentucky intrastate data should be provided not later than 10 weeks following the month being reported. Data for calendar 1988 will be required within 60 days from the date of this Order.

KPSC Schedule 4 has been included to track specific issues not only for the past but the future. The Commission reserves the opportunity to incorporate additional changes to this schedule as they may be warranted.

None of the above reports specifically address nonregulated activities. Thus the Commission finds that SCB should provide, beginning with the 1988 report, the Kentucky combined quarterly

Automated Reporting and Management Information System as filed with the Federal Communications Commission ("FCC").

Budget information for 1989 and 1990 should also be supplied. This information should not only show the level of activity, but should include details of the underlying assumptions. A written status of the budgetary process for 1989 and of any continuing delays in providing this information to the Commission should be filed by April 28, 1989. In the event of significant changes, SCB should provide updated budgets and explain applicable changes of assumptions. Moreover, SCB shall file on a quarterly basis, beginning July 1, 1989, the status of its budgetary process and note any changes.

In addition to the above reported information, SCB should inform the Commission of operational changes and the impact on the management of SCB and BellSouth, of relevant orders issued by the FCC, the judicial system, and other entities having a direct or indirect impact on the earnings of the Kentucky operations. Any of this information which SCB considers confidential should be filed pursuant to 807 KAR 5:001, Section 7 with a copy for the public file. Further, SCB should file, at least quarterly, summaries of this information and any anticipated future changes as they relate to the incentive plan. Within 10 days of filing such information, SCB should schedule a quarterly meeting. SCB should file an agenda for this meeting clearly marking on the agenda items which all parties of record will be served and for which all parties will be invited to attend the quarterly meetings. If confidentiality has been granted for any items on

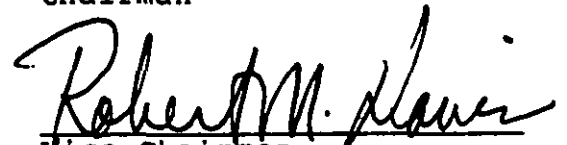
the agenda, then only Staff and the Attorney General of the Commonwealth of Kentucky will be invited to this portion of the quarterly meeting. The first meeting shall be held May 5, 1989 at 10 a.m., Eastern Daylight Time, in the Commission's offices.

BE IT SO ORDERED.

Done at Frankfort, Kentucky, this 18th day of April, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
MONTHLY SURVEILLANCE REPORT

INCOME STATEMENT
DATE

SCHEDULE 1

	AMOUNTS FOR THE MONTH			12 MONTHS TO DATE		
	KENTUCKY	INTERSTATE	INTRASTATE	KENTUCKY	INTERSTATE	INTRASTATE
OPERATING REVENUES						
LOCAL NETWORK SERVICES						
NETWORK ACCESS SERVICES						
LONG DISTANCE NETWORK						
MISCELLANEOUS REVENUE						
UNCOLLECTIBLE REVENUE						
TOTAL OPERATING REVENUES						
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS						
PLANT NONSPECIFIC OPERATIONS*						
DEPRECIATION/AMORTIZATION EXPENSE						
CUSTOMER OPERATIONS EXPENSE						
CORPORATE OPERATIONS EXPENSE						
TOTAL OPERATING EXPENSES						
UNIVERSAL SERVICE FUND						
OTHER OPERATING INCOME & EXPENSES						
TOTAL OTHER						
OPERATING FEDERAL INCOME TAXES						
OPERATING STATE/LOCAL INCOME TAXES						
OPERATING OTHER TAXES						
TOTAL OPERATING TAXES						
TOTAL EXPENSES/OTHER/TAXES						
NET OPERATING INCOME						
NONOPERATING INCOME/(EXPENSE)-NET OF TAX						
INCOME AVAILABLE FOR CAPITAL						
INTEREST ON FUNDED DEBT		XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX
INTEREST EXPENSE ON CAPITAL LEASES		XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX
AMORT. OF DEBT ISSUANCE EXPENSE		XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX
OTHER INTEREST DEDUCTIONS		XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX
TOTAL INTEREST EXPENSE						
INCOME BEFORE EXTRAORDINARY ITEMS						
EXTRAORDINARY INCOME-NET OF TAX						
NONREGULATED INCOME-NET OF TAX						
NET INCOME						

* EXCLUDING DEPRECIATION/AMORTIZATION

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
MONTHLY SURVEILLANCE REPORT

UTILITY NAME
INCOME STATEMENT DETAIL
SELECTED ITEMS
DATE

SCHEDULE 1A

	CURRENT MONTH			12 MONTHS TO DATE		
	KENTUCKY	INTERSTATE	INTRASTATE	KENTUCKY	INTERSTATE	INTRASTATE
LOCAL NETWORK REVENUES	:	:	:	:	:	:
BASIC LOCAL SERVICE REVENUE	:	:	:	:	:	:
PUBLIC TELEPHONE REVENUES	:	:	:	:	:	:
CUSTOMER PREMISE REVENUES	:	:	:	:	:	:
OTHER LOCAL NETWORK REVENUE	:	:	:	:	:	:
TOTAL LOCAL NETWORK REV.	:	:	:	:	:	:
NETWORK ACCESS	:	:	:	:	:	:
NETWORK ACCESS	:	:	:	:	:	:
END USER REVENUE	:	:	:	:	:	:
SWITCHED ACCESS	:	:	:	:	:	:
SPECIAL ACCESS	:	:	:	:	:	:
NECA REVENUE	:	:	:	:	:	:
ULAS REVENUE	:	:	:	:	:	:
OTHER ACCESS REVENUE	:	:	:	:	:	:
TOTAL NETWORK ACCESS	:	:	:	:	:	:
EXPENSES	:	:	:	:	:	:
NETWORK SUPPORT EXPENSES	:	:	:	:	:	:
GENERAL SUPPORT EXPENSES	:	:	:	:	:	:
C.O. SWITCHING EXPENSES	:	:	:	:	:	:
OPERATORS SYSTEM EXPENSE	:	:	:	:	:	:
C.O. TRANSMISSION EXPENSE	:	:	:	:	:	:
INFORMATION ORIG./TERM. EXPENSE	:	:	:	:	:	:
CABLE AND WIRE FACILITIES	:	:	:	:	:	:
TOTAL PLANT SPECIFIC	:	:	:	:	:	:
OTHER PROPERTY, PLANT	:	:	:	:	:	:
AND EQUIPMENT EXPENSE	:	:	:	:	:	:
NETWORK OPERATIONS EXPENSE	:	:	:	:	:	:
ACCESS EXPENSE	:	:	:	:	:	:
TOTAL PLANT NONSPECIFIC*	:	:	:	:	:	:
MARKETING	:	:	:	:	:	:
SERVICES	:	:	:	:	:	:
TOTAL CUSTOMER OPERATIONS	:	:	:	:	:	:
EXECUTIVE & PLANNING	:	:	:	:	:	:
GENERAL & ADMINISTRATIVE	:	:	:	:	:	:
TOTAL CORPORATE OPERATIONS	:	:	:	:	:	:

* EXCLUDING DEPRECIATION/AMORTIZATION

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
MONTHLY SURVEILLANCE REPORT

UTILITY NAME
CAPITALIZATION AND STATISTICS
DATE

SCHEDULE 2

CAPITALIZATION	BALANCE AT MONTH END			AVERAGE 12 MONTHS TO DATE		
	KENTUCKY	INTERSTATE	INTRASTATE	KENTUCKY	INTERSTATE	INTRASTATE
COMMON EQUITY	:	:	:	:	:	:
PREFERRED STOCK	:	:	:	:	:	:
LONG TERM DEBT	:	:	:	:	:	:
SHORT TERM DEBT	:	:	:	:	:	:
UNAMORTIZED ITC POST-JDIC	:	:	:	:	:	:
OTHER CAPITAL	:	:	:	:	:	:
TOTAL CAPITALIZATION	:	:	:	:	:	:
TOTAL EQUITY INCL. JDIC	:	:	:	:	:	:
CAPITALIZATION OF NONREGULATED ACTIVITIES	:	:	:	:	:	:

STATISTICS	CURRENT MONTH			AVERAGE 12 MONTHS TO DATE		
ACCESS LINES AT MONTH END	:	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
AVERAGE ACCESS LINES	:	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
OPERATING REV./AVE. ACCESS LINE	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
OPER. INC. & AFUDC/AVE. ACCESS LINE	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
AVE. NET INVEST./AVE. ACCESS LINE	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
AVE. RATE BASE / AVE. ACCESS LINE	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
RATIO-OPER.REV.TO AVE.TEL.PLANT	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
RATIO-OPER.EXP.TO AVE.TEL.PLANT	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
RATIO-PLANT EXP. TO AVE.TEL.PLANT	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
RATIO-INC. AVAIL. TO AVE. CAPITAL	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
RATIO-OPER. INC. & AFUDC TO REGULATED CAPITAL	:	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
RATIO-NET INC. TO AVE. EQUITY EXCL. RETURN ON JDIC	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
RATIO-NET INC. TO AVE. EQUITY	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
WEIGHTED COST OF DEBT CAPITAL	:	XXXXXXXXXX	XXXXXXXXXX	:	:	:
LONG TERM DEBT	:	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
SHORT TERM DEBT	:	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
NUMBER OF EMPLOYEES	:	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
MONTHLY SURVEILLANCE REPORT

UTILITY NAME
REGULATED NET INVESTMENT
DATE

SCHEDULE 3

REGULATED INVESTMENT	BALANCE AT MONTH END			AVERAGE 12 MONTHS TO DATE		
	KENTUCKY	INTERSTATE	INTRASTATE	KENTUCKY	INTERSTATE	INTRASTATE
LAND AND SUPPORT ASSETS						
LAND	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
MOTOR VEHICLES	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
AIRCRAFT	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
SPECIAL PURPOSE VEHICLES	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
GARAGE WORK EQUIPMENT	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
OTHER WORK EQUIPMENT	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
BUILDINGS	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
FURNITURE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
OFFICE EQUIPMENT	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
GENERAL PURPOSE COMPUTERS	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
CENTRAL OFFICE ASSETS						
ANALOG ELECTRONIC	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
DIGITAL SWITCHING	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
ELECTRO-MECHANICAL SWITCHING	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
OPERATOR SYSTEMS	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
RADIO SYSTEMS	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
CIRCUIT EQUIPMENT	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
INFORMATION ORIG./TERM. ASSETS						
STATION APPARATUS	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
CUSTOMER PREMISE WIRING	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
LARGE PBX	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
PUBLIC TELE. TERMINAL EQUIP.	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
OTHER TERMINAL EQUIPMENT	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
CABLE AND WIRE ASSETS						
POLES	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
AERIAL CABLE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
UNDERGROUND CABLE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
BURIED CABLE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
SUBMARINE CABLE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
INTRABUILDING NETWORK CABLE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
AERIAL WIRE	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
CONDUIT SYSTEMS	XXXXXXXXXX	XXXXXXXXXX		XXXXXXXXXX	XXXXXXXXXX	
AMORTIZABLE ASSETS						
TELECOMMUNICATIONS PLANT IN SERVICE						
TELEPHONE PLANT UNDER CONSTRUCTION						
PROPERTY HELD FOR FUTURE TEL. USE						
PLANT ACQUISITION ADJUSTMENT						
PREPAIDS						
MATERIAL/SUPPLIES						
ACCUMULATED DEPRECIATION						
ACCUM.DEFERRED INCOME TAXES						
UNAMORTIZED ITC PRE-JDIC						
OTHER INVESTMENT						
RATE BASE						

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
MONTHLY SURVEILLANCE REPORT

UTILITY NAME
SUPPLEMENTAL INFORMATION
DATE

SCHEDULE 4

ITEM	CURRENT MONTH			12 MONTHS TO DATE		
	KENTUCKY	INTERSTATE	INTRASTATE	KENTUCKY	INTERSTATE	INTRASTATE
EXPENSES OF SERVICE CORPORATION	:	:	:	:	:	:
EXPENSES OF CORPORATE HEADQUARTERS	:	:	:	:	:	:
TOTAL SALARIES AND WAGES	:	:	:	:	:	:
SALARIES AND WAGES EXPENSED	:	:	:	:	:	:
TOTAL BENEFITS/PENSIONS	:	:	:	:	:	:
BENEFITS/PENSIONS EXPENSED	:	:	:	:	:	:
ALLOWED RATE OF RETURN-LAST CASE....	:	:	:	:	:	:
ON NET INVESTMENT	:	:	:	:	:	:
ON EQUITY	:	:	:	:	:	:
EARNED RATE OF RETURN-CURRENT..	:	:	:	:	:	:
ON NET INVESTMENT	:	:	:	:	:	:
ON EQUITY	:	:	:	:	:	:
DIRECTORY REVENUES	:	:	:	:	:	:
DIRECTORY EXPENSES	:	:	:	:	:	:
INTRASTATE B & C REVENUES	:	:	:	:	:	:
AFUDC	:	:	:	:	:	:
REVENUE RESERVES OR DEFERRALS	:	:	:	:	:	:

SCHEDULE 5A

		-----CURRENT MONTH-----				----- 12 MONTHS TO DATE -----					
ACCOUNT NO.	ACCOUNT TITLE	SALARIES & WAGES	BENEFITS	RENTS	OTHER EXPENSES	TOTAL ACTIVITY	SALARIES & WAGES	BENEFITS	RENTS	OTHER EXPENSES	TOTAL ACTIVITY

PLANT SPECIFIC OPERATIONS											
6110	NETWORK SUPPORT										
6120	GENERAL SUPPORT										
6210	C.O. SWITCHING										
6220	OPERATORS SYSTEM										
6230	C.O. TRANSMISSION										
6310	INFO ORIG/TERM										
6410	CABLE/WIRE FAC.										

TOTAL PLANT SPECIFIC											
PLANT NONSPECIFIC OPERATIONS											
6510	OTHER PLANT/PROP.										
6530	NETWORK OPERATONS										

TOTAL PLANT NONSPECIFIC											
CUSTOMER OPERATIONS											
6610	MARKETING										
6620	SERVICES										

TOTAL CUSTOMER OPERATIONS											
CORPORATE OPERATIONS											
6710	EXECUTIVE/PLANNING										
6720	GENERAL/ADMINISTRATIVE										

TOTAL CORPORATE OPERATIONS											

SCHEDULE 5B[illegible]

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
MONTHLY SURVEILLANCE REPORT

UTILITY NAME
PRO FORMA ADJUSTMENTS
DATE

SCHEDULE 6

ADJUSTMENTS NECESSARY TO REFLECT COMMISSION
POLICY IN THE COMPANY'S MOST RECENT
RATE CASE.

NET OPERATING INCOME (SCHEDULE 2)

PRO FORMA ADJUSTMENTS:

- 1) YELLOW PAGES ADJUSTMENT
- 2) INTEREST SYNCHRONIZATION
- 3) END OF PERIOD ADJUSTS.
- 4) PAYROLL INCREASES:
 - DUE TO EMPLOYEE LEVELS
 - DUE TO MERIT/CONTRACT
- 5) OTHER

TOTAL ADJUSTMENTS

TAX EFFECT OF ADJUSTMENTS

ADJUSTED INCOME FROM OPERATIONS

NET INVESTMENT PER BOOKS

ADJUSTMENTS TO NET INVESTMENT:

ADJUSTED NET INVESTMENT

ADJUSTED RETURN ON NET INVESTMENT

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